

Served: March 14, 2002



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 11th day of March, 2002

Essential Air Service at:

CRESCENT CITY, CALIFORNIA

Under 49 U.S.C. 41731 *et seq.*

Docket OST 97-2649- 6

ORDER TENTATIVELY RESELECTING CARRIER

SUMMARY

By this order we are tentatively reselecting SkyWest Airlines, Inc. (SkyWest) to provide subsidized essential air service at Crescent City, California, for the two-year period beginning October 1, 2001, through December 31, 2003, at an annual rate of \$333,717. (See Appendix A for a map.)

BACKGROUND

SkyWest has provided subsidized service to Crescent City for many years. Order 99-11-7 last selected SkyWest to serve Crescent City and set a final rate through December 31, 2001, in the amount of \$314,865 annually. The proposed service in this order reflects the same level of service that SkyWest is currently providing.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited SkyWest to submit a proposal for continuation of essential air service at Crescent City.

CARRIER SERVICE PROPOSAL

In response to our inquiry SkyWest submitted and negotiated a renewal proposal for an additional two-year rate term. (See Appendix B to this order for a summary of the subsidy computation for SkyWest.) SkyWest's proposed service would be the same as the historical service level. It would provide a total of 18 one-stop round trips a week to either San Francisco or Sacramento. Historically, SkyWest has provided a daily nonstop to San Francisco and the remainder of the service to Sacramento over Eureka. This service pattern allows Crescent City passengers to disembark at Eureka and make connections on SkyWest to San Francisco or stay on the airplane and continue to Sacramento. Based on informal rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$333,717 was agreed upon.

TENTATIVE RESELECTION

We will tentatively reselect SkyWest to provide essential air service at Crescent City as detailed in Appendix C, for an additional two-year period. The level of service is the same as before and the level of subsidy is approximately the same. Since SkyWest's contract expired on December 31, 2001, the rate would be normally be effective January 1, 2002. However, in response to the terrorist attacks of September 11 and the resulting increases in costs and decreases in revenues, we issued Order 2002-2-13 granting rate relief on a program-wide basis, retroactive to October 1. (See that Order for a full explanation.) Therefore, consistent with Order 2002-2-13, we will make this rate effective October 1, 2001.¹

OBJECTIONS OR PROPOSALS

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

¹ The rate of \$314,865 in Order 99-11-7 was calculated on the basis of either nonstop service to San Francisco and one-stop service to Sacramento. The rate of \$333,717 is not significantly higher than the old rate, notwithstanding significant decreases in revenue, because it used a different costing methodology. In essence, the previous rate calculated SkyWest's subsidy need on the basis of all nonstop service to San Francisco. The new rate is calculated on the basis of one nonstop round trip a day to San Francisco, and two nonstop round trips a day to Eureka.

We request proposals that would provide at least three round trips a day to either of Crescent City's designated hubs, San Francisco or Sacramento, with twin-engine aircraft operated by two pilots. We will also entertain proposals to other hubs that provide access to the national air transportation system in order to give the Department and community as broad an array of proposals as possible from which to choose. Of course, as always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

SERVICE HISTORY AND TRAFFIC DATA

SkyWest Airlines has served Crescent City for a number of years. In order to assist potential applicant carriers in making their passenger and revenue forecasts, we have included historical passenger levels for the last several years in Appendix D.

PROCEDURES FOR FILING PROPOSALS

For interested air carriers that are not familiar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service.²

COMMUNITY AND STATE COMMENTS

If we receive competing proposals the community and State are welcome to submit comments on the proposals at any time.³ Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.⁴

² Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

³ Civic parties should file an original and five copies of their comments in Docket OST-97-2649. Comments should be addressed to: Documentary Services Division, Docket Section, SVC 124.1, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

⁴ In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

OTHER CARRIER REQUIREMENTS

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁵ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements, as well as copies of the certifications, should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

CARRIER FITNESS

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that SkyWest remains fit. SkyWest has experience providing essential air service at Crescent City, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department tentatively reselects SkyWest Airlines, Inc., to provide essential air service at Crescent City, California, for the period from October 1, 2001, through December 31, 2003;

⁵ The regulations applicable to these areas are: (1) 49 CFR Part 20 – New restrictions on lobbying; (2) 49 CFR Part 21 – Nondiscrimination in federally-assisted programs of the Department of Transportation – Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 – Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 – Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 – Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

2. The Department sets the final rate of compensation for SkyWest Airlines, Inc., for the provision of essential air service at Crescent City, California, for the period from October 1, 2001, through December 31, 2003, at \$333,717 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$181.86;⁶
3. For the period October 1, 2001, through December 31, 2001, this rate is in lieu of, and not in addition to those set by Orders 99-11-17 and 2002-2-13;
4. In the event objections or competing proposals are received, the rate in ordering paragraph (2) above will be effective as a final rate on October 1, 2001, until further Department action;
5. We find that SkyWest Airlines, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Crescent City, California;
6. We direct SkyWest Airlines, Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
7. This docket will remain open until further order of the Department; and
8. We will serve a copy of this order on the Mayor and airport manager of Crescent City, California, the California Department of Transportation, SkyWest Airlines, Inc., and the carriers listed in Appendix E.

By:

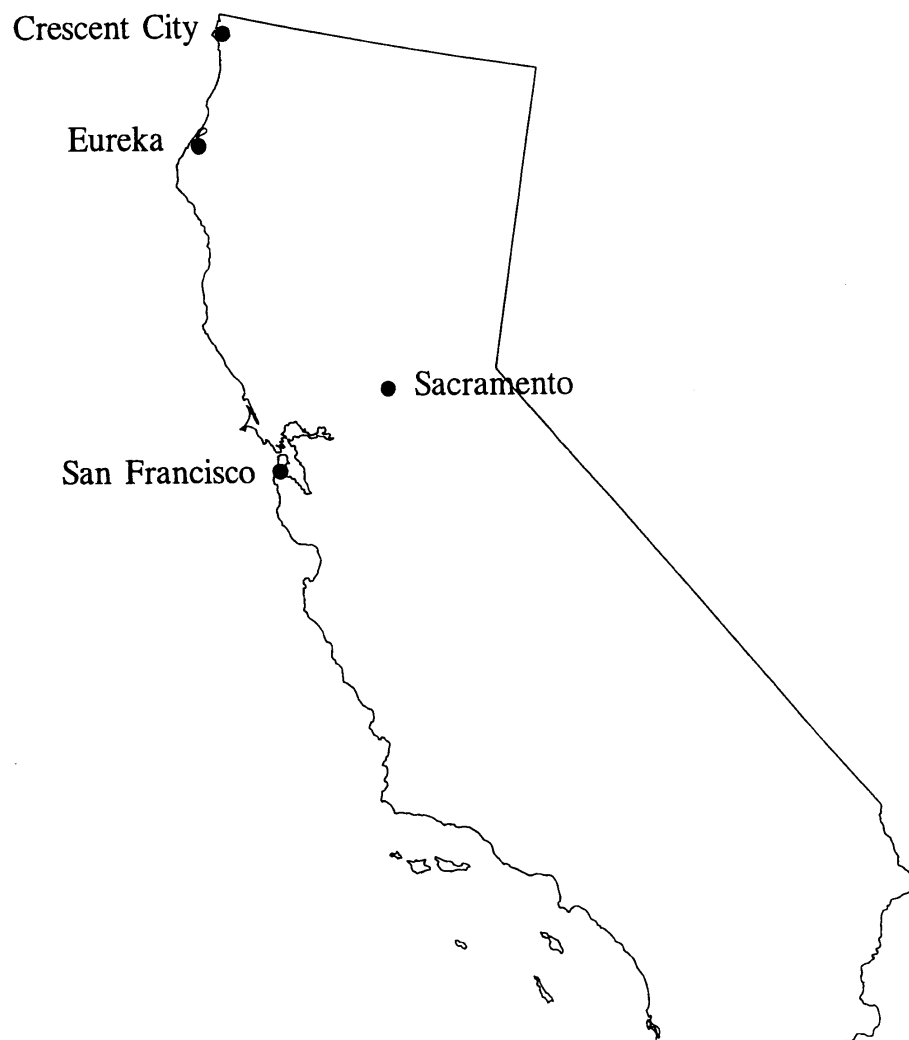
READ C. VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
http://dms.dot.gov/reports/reports_aviation.asp*

⁶ See Appendix C for calculation.

CALIFORNIA



Mileages

Crescent City - Eureka	56
Crescent City - Sacramento	255
Crescent City - San Francisco	304
Eureka - San Francisco	250
Eureka - Sacramento	207
Sacramento - San Francisco	86

Appendix B

Essential Air Service to be Provided at Crescent City, California, Docket 2649

Number of trips per week	18
Block Hours & Routing	1,733 1/
RPMs	5,027,952 2/
Departures	1,835 3/
ASMs	7,631,769 4/
Passengers	22,568 5/
Average Fare	\$61.67 6/
Revenue	\$1,391,852 7/
<u>Freight @ .6%</u>	<u>\$8,351</u>
Total Revenue	\$1,400,203
Pilot @ \$132.47/hr.	\$229,571
Fuel @ \$88.44/hr.	\$153,267
Other @ \$39.70/hr.	\$68,800
Maintenance @ \$167.19/hr.	\$289,740
<u>Depreciation./Rent</u>	<u>\$264,993</u>
Direct Expenses	\$1,006,371
Flt. Att. Rel. @ \$21.65/hr.	\$37,519
RPM Rel. @ \$.0234089/RPM	\$117,699
Departure Rel. @ \$161.78/dep.	\$296,866
ASM Rel. @ \$.0173713	\$132,574
<u>Special Non-Historical Costs</u>	<u>\$60,323 8/</u>
Indirect Expenses	\$644,981
Total Operating Expense	\$1,651,352
<u>Profit @ 5%</u>	<u>\$82,568</u>
Total Economic Cost	\$1,733,920
Annual Subsidy @ 98%	\$333,717

1/ CEC-SFO, 6 rt/week x 176 min./trip x 52 weeks x .98/60 = 897 hrs.;
 CEC-ACV-[SMF], 12 rt/week x 82 min./trip x 52 weeks x .98/60 = 836 hrs.;
 2/ CEC-SFO, 15,178 pax. x 304 miles = 4,614,112; CEC-ACV, 7,390 pax. x 56 miles = 413,840
 3/ 36 flts/week x 52 weeks x .98 = 1,835 depts.
 4/ CEC-SFO, 12 flts./week x 304 miles x 30 seats x 52 weeks x .98 = 5,577,062 ASMs;
 CEC-ACV-[SMF] 24 flts./week x 56 miles x 30 seats x 52 weeks x .98 = 2,054,707 ASMs;
 5/ 14,726 enplaned pax. for YE 6/30/01 less 621 pax. (for extra historical nonstop service) multiplied 2 for O&D
 and by 80% to reflect terrorist impact.
 6/ 75% of historical fare to reflect terrorist impact.
 7/ CEC-SFO, 15,178 pax. x \$70.98 = \$1,077,334; CEC-Other 7,390 pax. x \$42.56 = \$314,518.
 8/ \$1.25 liability insurance per pax.; \$7.50 war risk insurance per departure;
 \$10/dep. additional screening costs.

**SkyWest Airlines, Inc., Essential Air Service to be Provided to Crescent City,
California, Docket OST-97-2649**

Effective Period: October 1, 2001, through December 31, 2003

Scheduled Service: 18 one-stop round trips each week to either Sacramento or San Francisco.

Aircraft: Embraer Brasilia.

Rate per Departure/Arrival: \$181.86 ¹

Weekly Ceiling: \$6,546.96 ²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Annual compensation of \$333,717 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor at each community:
36 departures/arrivals x 52 weeks x .98 = 1,835 total.

² Subsidy rate per arrival/departure at Sacramento or San Francisco of \$181.86 multiplied by 36 subsidy-eligible arrivals and departures each week.

Appendix D

Historical Enplanements at Crescent City, California

1995 Q1	1,349
Q2	1,675
Q3	2,129
<u>Q4</u>	<u>1,731</u>
Total	6,884
1996 Q1	1,611
Q2	1,837
Q3	1,756
<u>Q4</u>	<u>1,655</u>
Total	6,859
1997 Q1	1,655
Q2	1,830
Q3	1,986
<u>Q4</u>	<u>2,375</u>
Total	7,846
1998 Q1	1,466
Q2	1,229
Q3	2,456
<u>Q4</u>	<u>2,410</u>
Total	7,561
1999 Q1	2,252
Q2	2,877
Q3	2,830
<u>Q4</u>	<u>4,151</u>
Total	12,110
2000 Q1	3,111
Q2	3,580
Q3	4,309
<u>Q4</u>	<u>4,243</u>
Total	15,243
2001 Q1	2,756
Q2	3,418
Q3	2,751

Source: SkyWest Schedule T-1 and Company documents for QE 9/30/01.

SERVICE LIST FOR THE STATE OF CALIFORNIA

Air L.A., Inc.	StatesWest Airlines, Inc.
Air Nevada Airlines, Inc.	Sun Pacific Airlines, Inc.
Air Vegas, Inc.	Trans Executive Airlines of Hawaii, Inc.
Alpha Air	Trans World Express, Inc.
American Eagle	United Express
Amerijet International, Inc.	USAir, Inc.
Arizona Airways, Inc.	West Air Charter
Arizona Pacific Airlines, Inc.	WestAir Commuter Airlines, Inc.
Aviation Services West, Inc.	Westward Airways, Inc.
Balter Worldwide Corporation	Wings West Airlines, Inc.
Barken International, Inc.	World Airways, Inc.
Continental Express, Inc.	Ken Bannon
Delta Connection	Moise Berger
Direct Air, Inc.	Gregorio Salas Calvo, Jr.
Executive Airlines, Inc.	Lisa Cosenza
Grand Airways, Inc.	Doug Franklin
Gunnell Aviation, Inc.	E.B. Freeman
Harbor Airlines, Inc.	Douglas Gumula
Hillside Aviation	Ben Harrison
Kenmore Air Harbor, Inc.	A. Edward Jenner
Las Vegas Airlines, Inc.	William Kostel
Martin Aviation, Inc.	Lee Mason
Medix Ambulance Service, Inc.	John McFarlane
Mesa Airlines, Inc.	Richard E. Perez
Metroflight, Inc.	Andy Pike
Midway Airlines, Inc.	Larry Tiffin
Midwest Express Airlines, Inc.	Mike Woodward
Northern Tier Airlines, Inc.	
Northwest Airlink	
Pacific Air West, Inc.	
Papillon Airways, Inc.	
Patterson Aviation Company	
Renown Aviation, Inc.	
Scenic Airlines, Inc.	
Sierra Nevada Airways, Inc.	
Skyrunners Corporation.	
Skywest Airlines, Inc.	